

VZCZCXRO6672
RR RUEHAO
DE RUEHCV #1995/01 1812107
ZNR UUUUU ZZH
R 302107Z JUN 06
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 5332
INFO RUEHBO/AMEMBASSY BOGOTA 6720
RUEHBU/AMEMBASSY BUENOS AIRES 1313
RUEHLP/AMEMBASSY LA PAZ 2147
RUEHPE/AMEMBASSY LIMA 0392
RUEHQT/AMEMBASSY QUITO 2229
RUEHSG/AMEMBASSY SANTIAGO 3616
RUEHAO/AMCONSUL CURACAO 0882
RUEHGL/AMCONSUL GUAYAQUIL 0533
RUCPDO/DEPT OF COMMERCE
RHEHNSC/NSC WASHDC
RUEHUB/USINT HAVANA 0827
RUCNDT/USMISSION USUN NEW YORK 0333

UNCLAS SECTION 01 OF 02 CARACAS 001995

SIPDIS

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [VE](#)

SUBJECT: CO-MANAGEMENT IN VENEZUELA: THE CRACKS ARE
STARTING TO SHOW

REF: CARACAS 1209

Summary

¶1. (SBU) In early 2005, President Chavez hailed "co-management" (a management model that distributes company ownership among the government, workers and/or original owners) as a powerful initiative to make the economy more "human" and "productive." Sixteen months later, a single successful BRV co-managed company remains to be seen. Invepal, an expropriated paper mill, made recent headlines when the workers' cooperative accused the company's board of corruption. The Minister of Light Industry and Commerce, visibly irritated by the allegations, said that the company would take three years to turn a profit (it's barely breaking even today). Other companies, such as an aluminum and steel plant, a sugar mill and a valve factory, are either awaiting legal hurdles to adopt the co-management model or are not yet operating months after their restructuring. The BRV, blaming "red tape" for the delays, is proposing legal reforms that would make it easier to apply the co-management structure to ailing private companies. The BRV's play to blue-collar workers -- promising them a stake in the company and job security -- is starting to backfire, as the co-management model fails to deliver. End summary.

Scandal in a paper mill

¶2. (SBU) In January 2005, President Chavez expropriated Venepal, a paper mill in Carabobo state that filed for bankruptcy in 2004, and hailed it would be reopened as a "co-managed" firm. He added that "the success of the co-management model is dependent on Invepal's success." (Note: Co-management is not a clearly defined term, but generally means a company that is co-owned by the government, workers, and/or original owners. End Note.) With a USD 6.1 million capital infusion, the BRV renamed the mill Invepal and assumed 51 percent ownership, leaving 49 percent to workers organized under the company's cooperative, Covinpa. The company currently employs 620 workers (capacity is 2,000) and as of May 2006, reportedly earned USD 511,267 in profits with a sales revenue of USD 10.4 million (50 percent of sales are to the public sector).

13. (SBU) On June 21, the President of Covinpa, Ramon Lagardera, announced that the company's former board (majority BRV, minority Covinpa) had "lost" USD 418,000 and was responsible for multiple "irregularities." The Minister of Light Industry and Commerce (MILCO), Maria Cristina Iglesias (also former Minister of Labor), took visible offense to the allegations, declaring that Lagardera "perhaps doesn't understand what co-management means," and that she had seen no proof of corruption. Months ago, the prior board financed three audits (costing the large sum of USD 45,000), which Lagardera said came from money to renovate the company's chemical lab. The results of the audits have not been disclosed, and current Covinpa board members say they've never received a company financial statement. SUNACOOOP, the Superintendency for Cooperatives, confirmed on June 27 that during a November 2005 spot audit they discovered "administrative irregularities" in Covinpa.

Does successful co-management exist?

14. (SBU) According to MILCO, 139 companies adopted the co-management model in 2005 (there are around 260 total according to legal experts), and six are co-owned by the BRV, but none are visible success stories. Alcasa, the aluminum processing plant hailed as the flagship example of co-management, reported losses of USD 56.7 million in 2005 (despite a USD 210 million BRV investment) and vicious infighting on the board has prompted an unhappy and politicized worker base. Invetex (formerly Hilanderia Tinaquillo), a textile mill, turned to co-management in May

CARACAS 00001995 002 OF 002

2005, when the BRV provided USD 1.6 million to re-open the plant. The original owners, the Mishkin family, kept 49 percent of shares with an agreement to let workers participate in plant management. Over a year later, the plant is not yet operational, and the Mishkins nearly abandoned the venture when SENIAT, the Customs and Tax Agency, kept delaying a tax exemption due to them based on their adoption of the co-management model.

15. (SBU) Other high-profile co-management attempts, such as the Sideroca steel plant in Zulia, the Inveval valve factory in Miranda, and the Cumanacoa Sugar Mill in Sucre, have either underperformed or are awaiting the culmination of legal processes allowing the switch to co-management (Ref A). On June 23, Vice-President Rangel announced the purchase of two Parmalat dairy plants. The National Assembly, after reading a report on the plants, suggested forming worker cooperatives and operating under co-management. (Note: reportedly, these plants are already problematic -- one cannot ensure a steady supply of raw materials and the other has significant employee productivity issues. End Note.)

Blame for underperformance

16. (SBU) To account for Invepal's poor performance, Iglesias declared publicly that MILCO had "planned it that way" and that the company wouldn't show profits until the third year of operation. Other BRV officials often blame overly bureaucratic regulations for delays -- MILCO has suggested reforming the Commerce Code to make it easier for the BRV to take control of bankrupt companies. In May 2006, Chavez decreed a change to the Organic Labor Law so that companies would be subject to co-management if they fired a large number of workers based on economic difficulty. Prior to the decree, companies usually turned to co-management only after declaring complete bankruptcy or shuttering operations.

Comment

[17](#). (SBU) In February 2005, Chavez said that co-management would bring forth a "human, social, productive, and egalitarian economy." Sixteen months later, Invepal is embroiled in a corruption scandal and is only breaking even. Though many co-managed companies nationwide are operating, none co-owned by the BRV seem to be proving successful. If there are examples of successful co-management without the BRV, none have been publicly acclaimed. The "threat" of applying co-management forcefully has hampered the private sector's freedom to declare bankruptcy or fire workers. As with other "Bolivarian" business models (such as cooperatives and Social Production Enterprises), productivity, sustainability and positive revenues seem to be secondary concerns for the BRV, which just keeps pumping money into enterprises based on their "pro-worker" management structure and social development model. In BRV co-management, the cracks are starting to show. End Comment.
BROWNFIELD